COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4910-01
Bill No.: HB 1180
Subject: Property, Real and Personal; Taxation and Revenue - Property
Type: Original
Date: February 11, 2014

---

Bill Summary: This proposal would authorize a homestead property tax exemption, phased in over 15 years, for certain individuals 65 years of age or older.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| General Revenue | $0 | $0 | $0 to ($4,161,328) |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund** | **$0** | **$0** | **$0 to ($4,161,328)** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| Blind Pension | $0 | $0 to ($20,703) | $0 to ($22,316) |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0 to ($20,703)** | **$0 to ($22,316)** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 14 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| | | | |
| | | | |
| **Total Estimated Net Effect on FTE** | **0** | **0** | **0** |

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| **Local Government** | **$0** | **$0 to ($4,140,625)** | **$0 to ($4,463,125)** |

## FISCAL ANALYSIS

ASSUMPTION

Section 137.108 RSMo. Homestead Property Tax Exemption:

This proposal would authorize a homestead property tax exemption phased in over 15 years for individuals 65 years of age or older whose total household income is no more than $50,000. The exemption would be 2.5% per year for each year of eligibility up to 60% of the property tax assessed on the individual's homestead. The income limits would be increased annually by the percentage of change in the federal Consumer Price Index over the previous year. An individual claiming this exemption would not be eligible for the Senior Citizens Property Tax Relief tax credit, commonly known as circuit breaker, or the Missouri Homestead Preservation Act tax credit. Any revenue losses to political subdivisions, as determined by the State Auditor, would be reimbursed by the state.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Elementary and Secondary Education** provided a response which did not indicate a fiscal impact to their organization, but assumed the proposal would have a fiscal impact to the state.

ASSUMPTION (continued)

Officials from the **Office of the State Auditor (SAO)** assume this proposal would require the SAO to calculate or verify any revenue loss claimed by a political subdivision as a result of the reduced assessments for certain taxpayers. SAO officials estimated that the additional calculation duty would require two additional staff Auditor I to gather the necessary data, analyze the submitted data, and calculate the revenue loss for each individual taxing authority. With 4,800 tax rates, it is difficult to estimate the number of these calculations the SAO would be asked to complete. Therefore it is possible that additional staff may be necessary as a result of this legislation.

SAO officials provided an estimated cost to implement this proposal including two additional staff with benefits, equipment, and expenses totaling $102,147 for FY 2015, $111,540 for FY 2016, and $112,664 for FY 2017.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials provided the following estimate of fiscal impact for the proposal.

* According to the US Census Bureau American Fact Finder, an estimated 14% of Missourians are over 65, while an estimated 4% are over age 80.

* Based on Tax Year 2011 data, BAP officials estimate 36% of All Households would meet the income threshold, and will use this statistic for this estimate.

* The Missouri State Tax Commission reported a total 2012 assessed valuation for residential property of $51,195 million.

* BAP officials assume an average property tax rate of $6.25 per $100 assessed valuation.

ASSUMPTION (continued)

| Homeowner age | 80 | 75-80 | 65-75 |
|---|---|---|---|
| Percent meeting age requirement | 4% | 2% | 8% |
| Percent meeting income requirement | 36% | 36% | 36% |
| Assessed valuation | $51,195,000,000 | $51,195,000,000 | $51,195,000,000 |
| Tax at $6.25/$100 | $3,200,000,000 | $3,200,000,000 | $3,200,000,000 |
| Tax by age qualified | $128,000,000 | $64,000,000 | $128,000,000 |
| Tax by age and income qualified | $46,000,000 | $23,000,000 | $46,000,000 |
| Credit percent by age | 40% | 27.5% | 2.5% |
| Possible credits | $18,400,000 | $6,300,000 | $2,300,000 |
| | | | Total $27,000,000 |

BAP officials estimated this exemption could increase state spending by $27 million, and assume this proposal would not decrease Total State Revenues, but could increase General Revenue Fund expenditures. This additional expenditure would be subject to appropriation; if monies are not appropriated, local revenues including those for schools, may be reduced.

ASSUMPTION (continued)

Additionally, BAP officials noted the cost of the program may differ from the estimated range for various reasons, including but not limited to:

* Seniors cannot participate in the other listed programs.

* The assessed value of residential property listed above includes properties that are not homesteads.

* The average assessed values of properties owned by seniors may differ from the statewide average.

* The table above presents a snapshot of estimates for three broad age groups, a more precise demographic breakdown might show increased costs.

BAP officials also assume this proposal may impact the calculation under Article X, Section 18(e), because it reduces property taxes.

Officials from the **Department of Revenue (DOR)** assume this proposal would have a fiscal impact on their organization.

Administrative Impact

DOR officials assume this proposal would reduce the number of applicants for the Missouri Property Tax Credit and Homestead Preservation Credit. This proposal would require programming and form changes but would have no other impact on Personal Tax.

DOR officials assume that taxpayers' denial of the current Homestead or Property Tax Credit would create the potential for a substantial number of contacts to Collections and Tax Assistance (CATA) and assume CATA would require one additional Tax Collection Technician I for contacts on the non-delinquent line and one additional Revenue Processing Technician I for contacts in the Tax Assist Offices. Each additional technician would require CARES equipment and license.

DOR officials provided an estimate of the cost to implement this proposal which included two additional employees. The total cost, including the employees, benefits, equipment, and expenses was $80,794 for FY 215, $82,710 for FY 2016, and $83,570 for FY 2017.

ASSUMPTION (continued)

DOR provided an estimate of the IT cost to implement this proposal of $36,691 based on 1,344 hours of programming to make changes to various tax systems.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

**Oversight** notes this proposal would, beginning in 2015, provide a 2.5% reduction in the assessed valuation of the primary residence of a resident taxpayer aged sixty-five or over with household income less than $50,000 per year. In 2016, the proposal would provide a 5% reduction in the assessed valuation of properties eligible in 2015, and a 2.5% reduction in the assessed valuation for the primary residence of a taxpayer who had turned sixty-five.

**Oversight** assumes many taxpayers who would be eligible for the proposed 2.5% and 5.0% tax reductions would also qualify for the Homestead Preservation Act Credit or the Property Tax Credit. Oversight also assumes benefits under the existing programs would be larger than the proposed tax reductions. Accordingly, Oversight assumes only a limited number of residents who do not qualify for the existing programs would apply for the proposed reduction in assessed valuation.

**Oversight** assumes the Office of the State Auditor and the Department of Revenue could process the activity generated by a limited number of applicants with existing resources. If an unanticipated additional workload is created, or if multiple proposals which create additional activity are enacted, resources could be requested through the budget process.

ASSUMPTION (continued)

Officials from the **State Tax Commission (TAX)** assume this proposal would have no direct fiscal impact to their organization.

TAX officials assume the potential revenue loss to political subdivisions resulting from the proposed exemption, that would be reimbursed to those political subdivision by the State of Missouri through appropriations can be illustrated as follows:

Using an example of a home that is valued by the local assessor at $100,000 dollars, and an average tax rate of $6.00 per hundred of assessed value, a typical claim would result in a reduction to schools and other taxing jurisdictions in the cumulative amount of $28.50 per claim the first year.

This amount would increase two and a half percent each year up to a maximum amount of $456 per claim when the property owner reaches the age of eighty. The total amount necessary to be appropriated would be dependent on the number of applications received from qualifying residents, which is unknown at this time.

Officials from **Jackson County** assume it would cost their organization approximately $100,000 if this legislation was enacted.

Officials from the **City of Columbia** assume the proposal would have little or no fiscal impact on their City.

Officials from the **City of Kansas City** assume this proposal would have no fiscal impact on their City since any losses would be reimbursed by the state.

Officials from the **City of St. Louis** assume there would be a significant but unknown cost to their City for computer changes to track property by ownership, provide notices to owners, and compute the exemption by the owner's age.

Officials from **Fulton Public Schools** assume this proposal would be revenue neutral for local districts provided the State Legislature appropriates funding for the homestead exemption.

Officials from **Cole County**, the **Platte County Board of Election Commission** and the **St. Louis County Board of Election Commission** assume the proposal would have no fiscal impact their organizations.

ASSUMPTION (continued)

Oversight assumptions

**Oversight** has collected the following information to make this estimate:

1. The State Tax Commission has provided a total residential assessed valuation for 2012 of $51 billion, and a statewide average local tax rate of $6.25 per $100 assessed valuation.

2. The United States Census Bureau reported a home ownership rate for Missouri of 69%, and that 14.1% of Missouri residents are aged 65 or older.

3. The United States Census bureau also reported that 53.4% of Missouri households had less than $50,000 income.

**Oversight** would calculate the fiscal impact of this proposal as follows:

A. The assessed valuation of owner-occupied residential property would be ($51 billion x 69%) = $35.2 billion.

B. The assessed valuation of property occupied by age eligible owners would be ($35.2 billion x 14.1%) = $4.96 billion.

C. The assessed valuation of property occupied by age and income eligible owners would be ($4.96 billion x 53.4%) = $2.65 billion.

D. The tax on those properties occupied by age and income eligible owners would be ($2.65 billion/$100 x $6.25) = $165.6 million.

E. The proposal would become effective for assessments made in 2015 (FY 2016). Reimbursements for lost revenues could be calculated by December 2015 (FY 2016) and included in the state budget for FY 2017. The reimbursement to local governments and the Blind Pension Fund would be paid one fiscal year after the revenue reduction was incurred.

ASSUMPTION (continued)

F. The local government revenue reduction from the proposal for FY 2016 would be ($165.6 million x 2.5%) = approximately $4,140,625.

G. The estimate of local government revenue reduction for first-year eligibles in FY 2017 would be approximately twice the FY 2016 revenue reduction.

Second-year first-time eligibles would result in an additional reduction of revenue as follows.

The United States Census Bureau reported that 5.6% of Missouri residents were aged 60-65. Oversight assumes for fiscal note purposes there would be an equal number of residents for each year in the 60-65 age bracket. Accordingly there would be (5.6% / 5) = 1.12% of the population age 64 and 98.5% of those would reach age 65. (1.12% x .985) = 1.10%.

($35.2 billion owner occupied residential property x 1.10% age eligible) = $387 million assessed valuation.

($387 million owner occupied age eligible x 53.4% income eligible) = $207 million owner occupied age and income eligible.

The tax on that property would be ($207 million x $6.25 / $100) = $12.9 million, and the revenue reduction for that group would be ($12.9 million x 2.5%) = $322,500.

The total local government revenue reduction for 2016 (FY 2017) would be ($4,140,625 x 2) = ($8,281,250 + $322,500) = $8,603,750.

H. The revenue reduction to the state Blind Pension Fund would be approximately ½ of 1% of the local government revenue reduction, or ($4,140,625 x .005) = $20,703 for FY 2016 and ($8,603,750 x .005) = $43,019 for FY 2017.

I. The cost of the program would increase each year as the surviving eligibles become entitled to an additional 2 ½ percent reduction in their assessed valuation and additional residents become eligible.

ASSUMPTION (continued)

As we noted above, the proposed tax reduction would likely be claimed only by resident taxpayers who do not qualify for the Homestead Preservation Act Credit or for the Property Tax Credit. Any estimate of revenue losses due to a reduction in the assessed valuation for specific groups should be considered in the context of current state limitations on local government tax revenues. Due to existing property tax limitation provisions, **Oversight** assumes that this proposal would at least partially shift local property taxes from eligible owners of property to owners of property who are not eligible for the reduction in assessed valuation. Finally, based on our review of property tax rate information developed by the Office of the State Auditor, Oversight has determined that many local governments would be able to compensate for a reduction in assessed valuation by increasing tax rates within existing tax rate ceilings.

For fiscal note purposes, **Oversight** will indicate a range from $0 to the maximum calculated impact of the proposed local property tax reduction.

| FISCAL IMPACT - State Government | FY 2015 (10 Mo.) | FY 2016 | FY 2017 |
|---|---|---|---|
| **GENERAL REVENUE FUND** | | | |
| Cost - Reimbursement to local governments- §137.708 | $0 | $0 | $0 to ($4,140,625) |
| Cost - Reimbursement to Blind Pension Fund - §137.708 | $0 | $0 | $0 to ($20,703) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE FUND** | **$0** | **$0** | **$0 to ($4,161,328)** |
| **BLIND PENSION FUND** | | | |
| Reimbursement - General Revenue Fund - §137.708 | $0 | $0 | $0 to $20,703 |
| Revenue Reduction - Tax reduction to qualified senior citizens - §137.708 | $0 | $0 to ($20,703) | $0 to ($43,019) |
| **ESTIMATED NET EFFECT ON BLIND PENSION FUND** | **$0** | **$0 to ($20,703)** | **$0 to ($22,316)** |

| FISCAL IMPACT - Local Government | FY 2015 (10 Mo.) | FY 2016 | FY 2017 |
|---|---|---|---|
| **LOCAL GOVERNMENTS** | | | |
| State Reimbursement - to Local Governments | $0 | $0 | $0 to $4,140,625 |
| Revenue Reduction - Tax reduction to qualified senior citizens | $0 | $0 to ($4,140,625) | $0 to ($8,603,750) |
| **ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS** | **$0** | **$0 to ($4,140,625)** | **$0 to ($4,463,125)** |

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would, beginning January 1, 2015, authorize a homestead property tax exemption phased in over 15 years for individuals 65 years of age or older whose total household income is no more than $50,000. The exemption would be 2.5% per year for each year of eligibility up to 60% of the property tax assessed on the individual's homestead. The income limits would be increased annually by the percentage of change in the federal Consumer Price Index over the previous year. An individual claiming this exemption would not be eligible for the Senior Citizens Property Tax Relief tax credit, commonly known as circuit breaker, or the Missouri Homestead Preservation Act tax credit.

A taxpayer would be required to file an application with his or her county assessor's office by May 1 each year, and the assessor would be required to adjust the taxpayer's tax assessment for the exemption. Any revenue losses of political subdivisions, as determined by the State Auditor, would be reimbursed by the state.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SAS:LR:OD

## SOURCES OF INFORMATION

Office of the Secretary of State
Office of the State Auditor
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission
Cole County
Jackson County
City of Columbia
City of Kansas City
City of St. Louis
Fulton Public Schools
Platte Count Board of Elections
St. Louis County Directors of Elections

Mickey Wilson

Mickey Wilson, CPA
Director
February 11, 2014

Ross Strope
Assistant Director
February 11, 2014

SAS:LR:OD